Office of The Auditor General
Zyra e Revizionit Gjeneral
Kancelaria Generalnog Revizora

Doc. no. 22.15.1-2006-08

FINAL AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE MUNICIPALITY OF SUHAREKA FOR THE YEAR ENDED ON 31 DECEMBER 2006

Prishtina, November 2007

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Executive Summary

The audit of Suhareka Municipality Financial Statements has been carried out by the Office of the Auditor General (OAG).

Based on importance of issues mentioned in Chapter 3, OAG will give its opinion whether the revenues and expenditures in the financial statements of the Municipality for the year ended 31st of December 2006 give a fair and true view.

In Annex 1, the auditor presents 20 findings; we have given also our conclusions and recommendations. Based on Regulation 2002/18 The OAG would urge the Senior Management of the auditee to take corrective action on these recommendations, and first of all present its Action Plan for dealing with the recommendations 30 days from receiving the Final Audit Report.

1. Introduction

Based on Section 8.1(e) and (x) section 11.1 (c) of UNMIK Regulation No. 2001/9 on Constitutional Framework of Provisional Self Government in Kosovo and Section 3.2 and 4.4 of UNMIK Regulation 2002/18 on establishment of the Office of the Auditor General in Kosovo we have performed the audit of Financial Statements of the Municipality of Suhareka for the period 01.01.2006 until 31.12.2006.

Primary responsibilities of Municipality have to do with:

- Providing basic conditions for sustainable economic development;
- Providing public services and infrastructure;
- Primary health care;
- Management of municipal properties;
- Preschool education, primary and secondary;
- Urban and rural planning;
- Environment protection;
- Providing social services as well as other public activities.

1.1 Audit Framework

UNMIK Regulation 2002/18 determines the formal basis of the Office of the Auditor General (the "OAG") in Kosovo. According to Section 3.2 of this regulation, the Auditor General (the "AG") is required to conduct an annual audit of all Kosovo institutions, by including:

- Whether financial statements give a true and fair view;
- Whether the financial records, systems and transactions comply with applicable statutes and regulations;

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- The appropriateness of internal controls and internal audit functions;
- The probity and propriety of administrative decisions taken within the audited institution or entity; and
- All matters arising from or relating to the audit.

In March 2003, the Kosovo Assembly issued Law 2003/2 "Law on Public Financial Management and Accountability" ("LPFMA"), which was formally promulgated by the SRSG in Regulation No. 2003/17 dated 12 May 2003.

1.2 Scope of the 2006 Audit of the Municipality of Suhareka

The primary objective of this financial statement audit for 2006 is to enable the OAG to express an opinion on whether the financial statements of the Municipality presents a true and fair view of the revenues collected and expenses paid during the year ended 31 December 2006 and whether they are prepared in accordance with the International Public Sector Accounting Standard ("IPSAS") on "Financial Reporting under the Cash Basis of Accounting". This IPSAS was issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants ("IFAC").

1.3 International Standards on Auditing (ISA)

Financial statements of the year 2006 in Suhareka Municipality have been subject to an independent audit performed in accordance with ISA issued by the International Auditing and Assurance Standards Board which functions as an international standards setting body under the auspices of the International Federation of Accountants ("IFAC") as applicable to the Public Sector. These standards establish the International Framework within which the Office of the Auditor General has to perform their work and cover matters as; general principles and responsibilities, risk evaluation and answers for evaluated risks, audit evidences, rely on others work and conclusions as well as audit reporting.

The specific International Standard of Auditing, which determinates the conclusions of audit reporting, provides the format and standard wording to be adopted when an auditor issues a clean or un-modified audit opinion, as well as providing guidance as to when an auditor should issue a modified or qualified audit opinion.
A modified audit opinion shall be issued in the following cases if:

- The auditor concludes that, based on the audit evidence obtained, the financial statements are not free from material misstatement due to a disagreement with management about (i) the acceptability of selected accounting policies, (ii) the application of the selected accounting policies, or (iii) the adequacy of disclosures in the financial statements. Therefore the auditor concludes that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework; or

- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from material misstatement.

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The auditor then forms a professional judgment about the materiality and pervasiveness of the matter giving rise to the modification to decide upon the type of audit opinion that should be issued as shown in the table below:

Nature of Matter giving rise to the Modification	Affects or Possibly Affects the Financial Statements	
	Materially	
Disagreement with Management	**Qualified Opinion**	**Disagreement with Management**
Inability to Obtain Sufficient Appropriate Audit Evidence	**Qualified Opinion**	**Inability to Obtain Sufficient Appropriate Audit Evidence**

Therefore a disclaimer of opinion is issued when the auditor is unable to determine whether line items within the financial statements are or may be affected by their inability to obtain sufficient appropriate audit evidence and because it is difficult or impossible for them to clearly describe the effect on the financial statements in their audit report. Hence no audit opinion is expressed on the financial statements.

1.4 Structure of this report

Introduction in Chapter 1ist followed by Chapters covering the following topics::

- Chapter 2 Reporting of Financial Data
- Chapter 3 Issues Affecting the Audit opinion
- Chapter 4 Internal Controlling System
- Chapter 5 Implementation of Laws, Regulations and Administrative Instructions
- Chapter 6 Revenues
- Chapter 7 Expenditures
- Chapter 8 Asset Management
- Chapter 9 Follow up recommendations from the year 2005

2. Reporting of financial data

Treasury Department (MoEF) has issued Administrative Instruction No 2006/14 on “Reporting of Budget Organizations”; to entities using Kosovo Consolidated Budget to report based on International Public Sector Accounting Standards under Cash based Accounting. The deadline for reporting was 31 of January 2007.
We have audited Municipality`sMunicipality’s financial statements for the year 2006. Those financial statements are the responsibility of the management of Municipality.

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3. Issues that affect the audit opinion

The key issues that affect in giving audit opinion of the OAG for the financial statements of the entity are as the following:

- Weak Internal Controlling System in the Municipality, particularly in relation with managing and collection of own source revenues as well as asset management.
- OAG noted weaknesses on implementation the Public Procurement Law No 2003/17 promulgated with UNMIK Regulation 2004/03.
- Lack of documentation for tender winners.
- The signed contract not implemented.

The aim of the OAG is that based on evidences to determinate the quantity of financial uncertainties and errors in the audited accounts. The findings we noted are mainly identified in the following categories: revenues, goods and services, capital investments and asset management. These findings previously have been presented and discussed with audited entity and corrections have been incorporated in the Annex 1.

3.1. Audit Opinion

Due to the importance of issues mentioned in the above paragraphs, we were unable to provide an opinion regarding the financial statements of Municipality for the year ended on 31 December 2006.

Financial Statements were not prepared in compliance with International Standards accepted by public sector for Financial Reporting under Cash Base Accounting and applicable legal framework. There are serious issues regarding the management of revenues, asset management and procurement procedures, requiring immediate attention by management of the Municipality.

4. Internal Controlling System

During the test of the internal controlling system we had interviews with principal managers in the Municipality and Internal Auditor. We performed an analyze of the Internal Auditor on work and organization, and use of required instructions for an efficient as effective function.

Internal controlling system is an important key in managing an institution. Establishment of internal control in compliance with applicable laws and regulations will help the management to achieve desirable results especially in reliable financial report in compliance with applicable laws and regulations.

4.1 Internal Audit Opinion (IAO)

Municipality of Suhareka has an Internal Audit Unit (IAU) with an auditor and the same is also manager of the unit.   Internal Auditor (IA) is an economist; there are no evidences whether IA is an certified accounted or licensed auditor. The role of IAU is to review implantation of applicable laws and regulations as well as the work of internal resources.

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We noted that the entity did not establish audit committee, as result; Internal Auditor reports tot the Mayer of the Municipality and committee for policy and finance.

Also we noted that the IAU has prepared plan and program for the year 2006 and approved by Mayer of the Municipality and Committee for Policy and Finance.

Based on assessment and review of the work performed by internal auditor as well as the reports issued by IA we came to conclusion that: IA applied some of the audit procedures and drafted audit report for: budget expenditures for goods and services, procurement procedures, own source revenues as well as reception and distribution of the goods, also we noted that IA has given recommendations for the findings. From all this, we can conclude that the fulfillment of the plan is in adequate level.

The OAG encourages the IAU to continue in the future with the same engagement since the working result will have positive impact to increase the level of internal control.

However, based in the fact that IA does not report directly to the audit committee, we conclude that his function is not independent.

Our recommendations are: continues improvement in the reporting field and fulfilling the audit standards by increasing the quality of the IAU staff and to start implementation of the law "Internal Audit" promulgated on 4th of July 2007.

5. Implementation of Laws, Regulations and Administrative Instruction

The audit is concentrated on assessing how Municipality complies with applicative Laws, Regulations and Instruction.
The Law and Regulation that Municipality has to implement are:

- Administrative Instruction 2006/14 "Reporting of Budget Organization";
- "Own Source Revenues Procedures" (September 2003);
- Law No 2003/2 for Public Financial Management and Responsibility
- Administrative Direction 2003/2 for Implementation of Regulation no 2001/36 of Kosovo Civil Service.
- Financial Rule and Treasury Instructions -02 "Expenditure of Public funds"
- Law No 2003/17 "Law on Public Procurement in Kosovo" (LPP);
- UNMIK Regulation 2000/45 "of Self Governance of Kosovo Municipalities ";
- Administrative Instruction 2005/11 " Management of Governmental Asset Registration"

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6. Revenues

Table 2: General Revenues as per FM of Municipality

Classification of Revenues	The year ended 31 December 2006
	(in €)
Own sourrce revenues	**1,477,814**
Central Government Grants	**4,947,251**
Grants Determinated by donators	**249,343**
Total of Revenues	6,674,408

Source of this information is 2006 Annual Report of Municipality (2006 Financial Statements of Municipality.
The following data presents detailed findings and comments in relation with these expenditure lines.

6.1 Own Source revenues of Municipality

6.1.1 . Introduction

Own source revenues in the Municipality are collected through three directorates: Municipal Administration, Health Department (CCMF) and Education Department (Kindergarten)

For registration of own source revenues is responsible the revenue officer, she/he does registration of revenues in the Free Balance, the data entered in the system- are provided by bank account information as well as from the cash box report within the administration

The Municipal own resource revenues, as presented in annual report of municipality, include:

Table 3. Own Source Revenues as per Treasury

Classification of own source Revenue	The year ended 31 December 2006 (in €)		
	Budget	Allocation	Expenditures
Own Source revenues from current year	1,248,675	1,046,934	534,014
Own Source Revenues from previous ye	430,880	430,880	372,649
Total	**1,679,555**	**1,477,814**	**906,663**

Collection of revenues up to 10 € it's done on cash bases through cash-office in the municipal administration, CCMF. At the end of each week money is being transferred into the municipal bank account.
Collection of revenues are done into three sub-accounts foreseen for: tax property, medical services, education and municipal administration these collected of revenues goes into main account of administration, then the chief of accounting and budget and finance director will transfer into central Treasury account Table No 3 presents own revenue collection where can be noted the failure in collection and efficient management of own source revenues.

Table 4 Statement of collected revenues – Municipality

Ecc.Code	Type of Revenue	The year ended 31 December 2006
		(in €)
40200	**Property Tax**	**292.113**
50026	**Municipal Taxes for per business**	**116.471**
50004	**Construction Licenses**	**89.256**
50005	**Property and Inherent**	**42.778**
50006	**Tender Participation**	**5.780**
50020	**Birth, Marriage, Death Certificates**	**60.695**
50024	**Document Verifications**	**6.707**
50100	**Traffic Fines – central**	**49.265**
50203	**Licenses for stone quarry**	**1.865**
50204	**Working permitsions**	**8.739**
50205	**Technical acceptance of premises**	**12.140**
53200	**Rent from premises**	**55.256**
53210	**Rent from opened markets**	**15.100**
55200	**Rent**	**7.089**
50290	**Other revenue**	**900**
53300	**Participations**	**61.515**
53300/1	**Participation from kindergarten**	**6.720**
53421	**Revenues from cadastre and geodesy**	**49.191**
53300/2	**Health Participation**	**44.420**
50101	**Court Fines – Municipal Transactions**	**120.941**
	T O T A L :	1.046.934

Information presented in the table has been taken from 2006 FS of Municipality.

6.2 Reconciliation

The table below presents the comparison of figures registered in the General Ledger System and amounts registered in the FS of Municipality:

Table 5. Revenues per Directory

Type of Revenue	According the FS of Municipality	As per Treasury (MEF)
	(in €)	(in €)
Tax Property	**292.114**	**292.114**
Other local revenues	**533.473**	**533.473**
Medical Services	**44.421**	**44.421**
Education	**6.720**	**6.720**
Traffic Fines	**170.206**	**0**
Total	1.046.934	876.728

6.3. Detailed audit findings

The main concern of this audit was on collection failure of all own source revenues as well as right use of collected funds. Our conclusion is that, in the Municipality exist revenues collected and spent without entering through financial records of the Municipality.
We noted that revenues from traffic fines are not presented in the Treasury (MoEF) LG, therefore we can conclude that the Municipality does not have an fair and true view of collected revenues.

Annex 1 presents detailed examples related to this concern.

7. Expenditures

Municipality of Suhareka, for the year 2006, for the category of expenditures has planed the amount of 6,674,407€ and spent 5,918,811€. This amount includes expenditures for: wages and salaries, goods and services, subventions and transfer also capital expenditures.

The table below presents the statements of budget execution based on main budget lines.

Table 6; Expenditures as per 2006 FS of Municipality.

Expenditures	Own Source Revenues	Goverment Grant	Donators fund	Amount
Wages and Salaries	**35,735**	**3,222,958**	**0**	**3,258,692**
Goods and Services	**77,964**	**724,015**	**17,766**	**819,746**
Utilities	**0**	**189,822**	**0**	**189,822**
Subvencions and Transfers	**86,859**	**0**	**0**	**86,859**
Capital Expenditurs	**706,104**	**787,565**	**70,023**	**1,563,692**
Total	906,662	4,924,360	87,789	5,918,811

7.1 Wages and Salaries

The purpose of testing was to see whether the payment of wages and salaries are in compliance with the contract of employee as well as with “Administrative Instruction 2003/2, Kosovo Civil Service”. We have audited 43 personnel files, the total of monetary payment in this sample is 83,155€, whereas the total amount of population for municipal salaries is 3,258,692€. In the sample is noted that the files of personnel mainly are completed, only 11 of them did not have identification document, we did not note any error or uncertainty in relation with payment.

7.2 Goods, Services and Capital Investments

From Population amounting 2,573,260€ we selected the sample with 29 cases from category of goods and services and 17 cases from category of capital investments and the total amount is 1,081,972€ or 42% from total population.

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Based on results of risk analysis the samples were randomly selected and through the following categories:
Fuel expenditures, PTK, office supply, maintenance, service, and other services.

For the category goods, services capital investments, our conclusion is that there was lack on application the following procedures:

- Expenditures for which is not implemented the contracted price
- For food and drinking supplies there was not any contracting procedure.
- Fuel supply, does not specify destination and its use.

In Annex 1.we present the findings for category of goods, services and capital investments.

8. Asset Management

During the audit of asset management in the municipality we were focused in reviewing and assessing the internal control as well as functioning of asset register, work and functioning of logistics responsible for reception, saving, distribution and take out of use official vehicles.
We noted that municipality improved its asset management; is established the committee for registration of assets, which committee registered assets but this happened in the year 2007.

During the physical examination, we noted that some of the equipment does not have label (ticket) with number or code. Delay on registration of assets affected that these registration were not reported by asset official in the Free Balance system. All this had impact also on reconciliation between of assets ascertained by registration and values presented in accounting.

In Annex 1, Auditor has presented findings identified in asset management:

The main findings in asset management are:

- Given with concession the asset of Municipality than transferred into permanent ownership to the private companies.-
- Given for rent the Municipal premises by not implementing the contract and
- Changing the leaseholder without implementation of required procedures.

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9. Follow up recommendations from the year 2005

- To establish financial statement in compliance with law and IA.
- Fixed Assets shall be registered in the Register of fixed assets, including location. Shall be physically labeled/ numbered for easier identification by registration number also where does not exist.
- To establish specific cards for each item, particularly all data for identification of the item, life use, depreciation norm, cost of appropriation, quantity ect.
- To register fixed assets (intangible and tangible assets), as well as reconciliation at the end of each year after registration of assets
- To draft an strategy for asset management.
- To draft an plan for maintenance of assets and fixed assets in annual and longer level in compliance with Regulation of Governmental Assets dated 12.07.2005 and Administrative Instruction 2005/11 of registration and management of assets.
- To conduct registration and determinate the situation of stocks at the end of the year.
- To reconcile the stocks situation as determinated by registration and situation of stocks with accounting evidences.
- To draft short- term reports of results reconciliation procedures and ascertain eventual differences and preventing actions
- To not sign any contract before fulfilling the conditions foreseen by Public Procurement Law, ensuring three offers, or in specific cases to get approval from PPA.
- To respect the contract requests and do not accept other articles not foreseen in contract.
- To respect all articles determinated in the contract, particularly the deadline and quality of supplies.
- To complete the files of the employees.
- To draft the Municipal internal Regulations for finance and administration in general.
- Shall be fully used the internal audit sources. Management should draft writing responses to recommendations and issues presented by IA, to draft detailed action plan and to detect weaknesses on time.
- Personnel shall be materially in charge with them and at the end to do an reconciliation (to ascertain exactly how much have been realized, collected funds, remaining or canceled documentation) with evidences in accounting for revenues.
- All source documentation for own source revenue shall be pre-counted.
- Municipality shall do maximal temptation to collect the revenues from rent
- To draft approved accounting polices.

- To describe explanation in relation with financial statements by summarizing explanation notes.

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Limitations

Our audit findings, as presented in this report, are based on the documentation and other information provided to us during our detailed audit work. It is possible that additional information may exist and not provided to us and, which could have impact on modification of our findings.
The detailed audit findings included in this report are illustrative of the key issues identified during the audit in the financial statement of the year 2006, but should not be assumed to disclose all issues found during the course of the audit work.

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10. Annex 1			
Nr	**Findings**	**Impacts**	**Recommendations**
	1. Reporting of Financial Data		
1	**Lack on discloser of none- financial assets** we noted that Municipality in the Financial Statement did not disclose none- financial assets. This disclosure includes the asset amounting above €1000, lifetime of these assets is more than one year.	Lack of linking system between asset registering and accounting module as well as lack of reconciliation procedures will lead to the misstatement of asset data. Also will result into weak control of asset movement and accurate balance of complete assets.	OAG recommends the Municipality to register assets in the Free Balance system and present the financial statements as noted in the article 16.2 of "Administrative Instruction 2006/14 Reporting of Budget Organizations".
	2. Internal Controlling System		
2	Internal Controlling System in the Municipality has lack of adequate policies and procedures which would serve as instruction for effective operation.	Lack of adequate instruction and policies and instructions as well as lack on segregation of duties will increase the risk of fraud activities and impossibilities on adequate internal controlling system	With purpose of better implementation of expenditures, OAG recommends the management to asses the needs of Municipality for establishing adequate policies and procedures as well as adequate segregation of duties.
	3. Own Source Revenues		

3	Even though the supply with receipt notes is done through procurement office, the reception invoice does not specify the type and serial number of receipt notes	Supply of receipt notes without serial number in the invoice leads to the possible misuse.	OAG recommends the Municipality that in the future these types of supplies shall be evidenced and specified by adequate serial number.
4	*Payment of health certificates above the foreseen amount of 10€.* Have been issued 882 certificates, 357 of them in amount of 15€ and 525 in amount of 18€. The total amount of this payment is 14,805€.	Collection of public funds above determined amount leads to the possible misuse of this fund and impacts in the overall management of revenues	OAG recommends the Municipality that collection of revenues shall be based on "Own Source Revenues Procedures, article 3.2- MoEF, September 2003 (payment from 1-10€ shall be performed by collection officer, whereas the payment above 10€ shall be through bank account of the Municipality.
5	*Collection of own source revenues in the Technical Secondary School "Skënder Luarasi"* is done through private bank account with annual amount of 139,887€. These revenues are not included in the accounting registers and Municipal FS. This fund is managed by School for their needs, whereas Municipality does not have control on these revenues.	Collection of revenues through private bank account results into the non-registration of these revenues in the accounting register which impacts also to a fair and true presentation of KCB revenues.	OAG recommends that Municipality shall respect the article 13.3, Law on Public Financial Management and Accountability. *(all the revenues of budget organization shall be deposited in the official bank account as required by financial rules)*
6	*Collection of own source revenues in the department of geodesy and Cadastre.* We noted that this department has done collection of cash above 10€ also we noted that there is not charging-discharging report of the invoices and preparation of annual report for services and amount of collected funds.	Such a collection of revenues creates possibility of none-registration in the accounting book, which impacts in the fair and true view of FS, all this has impact reconciliation of collected amounts and offered services.	OAG recommends that with purpose of establishing effective control to avoid all reception- handover of revenue receipts and record the service performed as per classification and amount. Payment above 10€ shall be performed through Municipal bank account.

7	We noted that the fund transfers from bank account of commercial banks into main account of BPA are done by Chief of Accounting and Budget Director and not by Revenue Officer.	Lack of segregation of duties and responsibilities impacts on effective and efficient management of funds.	OAG recommends to apply the regulation " Own Source Revenues (September 2003) where is noted that all revenues shall be transferred from commercial banks into main account of BPA" under responsibility of revenues offices.
	4. Expenditures :		
	4.1 Goods and Services		
8	**Supply with food and drinks without bidding procedures**. We concluded that Municipality used the contract for supply of kindergarten for other school expenditures. At the same time, we noted that they did not apply all contracted specifications as prices and items. Total amount of expenditures is 1,646.53€ .	Municipality in this case has violated the procurement procedures, these purchases will impact increasing unnecessary expenditures, and therefore the municipal budget will be damages.	With purpose of establishing an adequate control. OAG recommends the municipality to apply the LPP As well as to implement complete contract provision
9	**Maintenance of the vehicles** During the test we noted that maintenance of the vehicles is done without any process proving that these services occurred. Municipality did not establish any committee proving this occurrence	Lack of written reports that would prove and justify the occurrence of the expenditure, shows that the Municipality has lack of adequate control and avoidance of responsibility by the side of competent officials	OAG recommends that Municipality shall establish an adequate control over expenditures by implementing adequate procedures that would ensure that expenditures have been approved, supported and registered as required
10	**Fuel Supplies** During the audit we noted that fuel delivery note does not specify the plates of vehicle or destination of fuel supplied. Also we noted that in two cases is not known the purpose of fuel supply, whether is for vehicle, generator or something else.	Lack of registration of fuel expenditures based on source documentation creates impossibilities on application of adequate expenses in the Municipality .	OAG recommends that with purpose of follow up and control of expenditures, the source documentation shall be clear and contain specific showing the purpose and destination of the expenditure.

13	***Office supplies.*** Procurement case No. 624 7 909016121 the contract conditions not implemented, Based on the invoice, we concluded that the prices are being increased highly> with purpose of testing, as samples we selected 6 invoices, we noted that 5 of them have increase of prices (highly). Below we will present some of them: Invoice No. 15/2006 article Mouse, price 5€ where as according to the contract 1€ totaling the amount of 50€ . Invoice No.20/2006 Photo letter A3 with price 45€ whereas according the contract is 2€ ,in total amount 225€ . Photo paper A4 according the invoice, the price is 28€ whereas according the contract 0.50€ in total amount 168€. Invoice No. 31/2006 zip – disk, priced 12€ whereas according the contract is 1€ total 240€. Invoice No. 29/2006 “Shnajder” pencils with price 0.40€ whereas according the contract is 0.09€, in total value 400€.	Such actions are not incompliance with article 7.2 of financial rules and Treasury instructions 02. “Use of Public Funds” We came to conclusion that this occurred as consequence of weak control by the side of finance and budget office, responsible for supervision of goods and services reporting in compliance with contracted conditions.	OAG recommends the municipality that the contract shall be implemented and before any payment to review the documentation as required in the article 7.2 of Financial Rules and Treasury Instruction 02, Use of Public Funds.
14	**Supply of Generator** for S S “Jeta Re” .*Subject No, procurement 62440 06 006 136* In this case we noted that there was avoidance of procurement procedures. Committee for opening and evaluation of the tenders is the same.	In this case we concluded that the procurement office in the municipality did not comply with rules of LPP. By taking into consideration the decision for appointment of the committee for opening and evaluation of tenders, which in this case was containing the	OAG recommends to implement the Public Procurement Rules- B part “ Regulation of Public Procurement” promulgated by Public Procurement Regulatory Body (PPRB) article 28.1- which says: – opening of tenders, Procurement

	The same person in the committee for opening and evaluation of tender as well as reception of goods. Tender in amount of 9,900€ . Offer of one of the three companies is irresponsible, we came into this conclusion based on information of business of the company, it is noted that this company does not work with the activity for which the offer was made, the request for generator. Same official in the opening and evaluation committee as well as receiving the goods The tender amount 9,900€ . We noted that the procurement case No. 6247 06 065 136, expenditure in amount of 7,341€, opening and evaluation committee is the same	same members.	officer in coordination with contracting authority will appoint the committee for tender opening (herein after “Committee”)which would contain different members from evaluation committee.
15.	**Concession construction of buffet in the school “Skënder Luarasi”.** Protocol Number 6241 06 081 521 . Tender winner NPSH “Shpresimi “contract in amount of 46,026€ ; the tender file of the winner is missing.	During the review of the tender documentation we concluded that the file of the tender winner NPSH “Shpresimi “is missing. However, we could not verify the regularity of the tender evaluation.	OAG recommends that for each tender to apply the tender procedures, files shall be completed for any need of verification of implementation on procurement procedures
	4.3 Subventions and Transfers		
16	Expenditures happened in the category subventions and transfers do not have supports as: Purchase of changing-room for KF ”Mushtisht” in amount of 3000€. Organization of Youth Holiday “Festari” in amount of 7000€. Suhareka Liberation Day, winner	We have concluded that 3 of 6 tested samples do not have supporting documents as: invoice, contract or any evidence that this expenditure happened because funds have been transferred into the account of beneficiary.” Financial Rule and Treasury Instruction -02, Use of Public Funds, article 7.6 foresees	OAG recommends to implement the financial rules in relation of maintain of documentation for execution of payments by applying the Financial Rule and Treasury Instruction -02, Use of Public Funds, article 7.6 foresees adequate documentation for payment execution.

	ÇR.”Shtëpia e Fellbahut “in amount of 5,980€.	adequate documentation for payment execution.	
	6. Asset Management		
17	**Giving the Municipal property for permanent use and sale of assets.** According to the act decision No. 10-45 dated 16.01.2002, cadastral property No. 2021/2 evidenced in the possessing letter No 409 with surface of 4,78 ha, public municipal property is transferred with compensation of permanent use to the NPN “Hidroterm” with purpose to construct living- business Premise. The part of 3.15% or amounting 17,241.10€ have been paid to the municipality by the user.	We noted that in this case procurement procedures have not been applied (for tender) for giving on use the property. Transfer of ownership from Municipal in to the NPN ’’Hidroterm”. The contract is not implemented according to which municipality was entitle to have 20% of the premise and in reality they have taken only 16.74%.	OAG recommends the Municipality to implement the UNMIK Regulation 2000/45, promulgated on 11 of August 2000, Article 44.2 foresees that: Municipality cannot sell or give for rent any municipal property for more than 10 years before getting approval from Central Government.
18	**Use of premise and space for rent-** Given for rent the green market, Municipality has contracted the green market with NPSH “FLED” without tender procedures. Until the month July 2006 the rent holder was NPSH “Bani” from which company all unpaid obligation were transferred to the new contracted enterprise.	We came to the conclusion that the green market given for rent was without tender procedures. Also we noted that those unpaid obligations by pervious company were transferred to the new contracted company.	OAG recommends the Management that after the end of the contract to implement the required procedures for re-contracting.

9	**Temporary use of the STORE for unlimited time.** Unrealized Contract, as per the store contract it is still on use by company "EUROING" Suhareka. The store has 597m surface for use and the monthly amount as per contract is 728.95€	Un-collecting rent revenues from the contracted premises impacts on decrease of municipal budget and this comes as consequence of weak management of assets which have negative impact on Municipal incomes.	OAG recommends the Municipality to strengthen the internal control of assets by completing the collection of rent or to through adequate procedures to change the contractors.
20	**Logistics.** Internal Controlling Management in this section is in deficit. We noted that the Asset Officer is in charge also with logistics work.	We concluded that the Municipality for the year ended 2006 did not conduct any final registration where would be identified expenditures for fuel of the vehicles and mileage.	OAG recommends the Municipality that in the future to segregate the duties of Asset Officer and reception/logistics officer. These duties shell be exercised by different persons. Recommendation is based on Administrative Instruction 2005/11 of Management and Registration of Governmental Assets, Article 3.5 .

Comments from Municipality

The Municipality of Suhareka has been given the opportunity to provide with their comments on the Audit Draft Report, so that we can avoid any misinterpretations and misunderstandings between the auditors and the audited entities.

The Municipality of Suhareka has provided their comments, which have been included in this report.
The Municipality has agreed with our recommendation, except point 11 (supply with Daily Newspapers and advertisements) and point 12 (canalization of sewages in the village Mushtisht) which have been included in the Annex 1 of this report, for this findings Municipality has provided us with additional evidences which we considered reasonable.

Municipal Assembly

chief Executive
02Nr *5212*
Suharekë
26.11.2007

NGA:Agim Zenelaj,Kryeshef i ekzekutivit

PËR: Z. Imer Vitija Drejtor i Depertamentit të Auditimit

Subject: Comments from Municipality of Suhareka regarding the recommendations issued by Auditor General for the Audit of 2006 Fiscal Year

4.1 Internal Audit Unit (IAU)

Comments from Management

According the Law of Internal Audit No 02/L 74 signed and implemented since 6 of June 2007. Ministry of Finance and Economy was obligated to organize a professional training and issuing the license for Internal Auditors. NJQH is authorized for issuing the licenses for Internal Auditors. Whereas in the unit was not established during 2007, was not have possibility also to license the Internal Auditor. After the NJQH will be established and organize a training for professional qualification for Internal Auditor, Municipality of Suhareka will give also the license to the Internal Auditor and at the same time will establish the committee of Internal Audit.

We hope this comment will be taken into consideration by audit team

3. Own Source revenues.

Comment from Management

Comment on Recommendation points 4 and 5

Cadastre and Geodesic Directorate and QKMF after recommendations issued by Internal Audit, the payments mentioned in recommendation have been fulfilled for 10, 00 Euro and above, these payments have been processed through bank account starting from 2007.

Evidence: Final Report of Internal Auditor

Comments on Recommendation No. 11; Supply of daily newspaper and advertisement.

Municipality on 31.12.2005 was supplied with festive daily newspaper “Zëri” so the price was 1€ , “Kosova Sot” with price 0,50€ and also “Bota Sot” with price of 1.00€ therefore the invoice for these Newspapers was done correct and this on date 04.01.2006.

Evidence: Photocopy of Festive Newspaper ZERI dated 31.12.2006 in amount of 1,00€.

4.2 Capital Investments

Comments on Recommendation No 12 regarding the canalization of sewages in the village Mushtisht procurement case No 6241 06 038 511

During the verification of tender file we conclude that: The tender was awarded to OE NNP"SOPI" in correct way based on that the selected Company was more responsible, economically more favorable than other companies based on fulfillment of conditions and criteria requested in the tender dossier.

The criteria and condition for awarding the tender was the completion of work for shorter time "Plani dinamik" (Dynamic Plan) for fulfilling this criteria were counted 25% of the total points and Guarantee conditions that the value of the guarantee to be as longer as possible for this was 5% of the total.

Evidence: in the tender file can be clearly noted the annex 8 criteria for tender awareness and the documentation for counting the points by the side of committee

Comments on recommendation No. 17. Land given for permanent use.

We think that procedures of the Act decision case No 10-45 dated 16.01.2002 was

continuation of the procedure started before the war in Kosovo and we continued the same procedures and taking into consideration that the same case was audited also during the audits conducted by the Office of the Auditor General during previous years and did not submit any comment or recommendation regarding the development of procedures, therefore we think that this comment shall be taken into consideration by the audit team.

We hope that the Audit team once more will review and analyze our comments submitted to you and in compliance with Law will decide positively. Other recommendation we accept as reasonable and we will draft an action plan for implementation of recommendation.